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HERO/PACE GUIDANCE FOR HECM

OVERVIEW

FHA is concerned about the potential for increased losses to the MMI Fund due to the priority lien status given to HERO and PACE loans in the case of default. FHA is also concerned with the lack of consumer protections associated with the origination of these loans. Therefore, properties encumbered with HERO or PACE obligations are not eligible for HECM financing unless the obligation is satisfied as clarified below.

POLICY

In accordance with HUD guidelines and clarification received, HERO and PACE loans are viewed as one and the same and are not permitted to be subordinated. In addition, the following guidelines apply:

Case Numbers Assigned Prior to 1/6/2018

These assessments cannot be considered mandatory obligations and are required to be paid off at or prior to closing with verified acceptable funds or with discretionary HECM proceeds.

Please note that the amount required to pay off a HERO/PACE are considered discretionary proceeds if the amount drawn does not exceed the initial disbursement limit/borrower's advance, as applicable, at closing and during the first 12 months of the HECM as set by the Commissioner. For fixed and adjustable interest rate HECMs, the funds advanced to the borrower at closing and during the First 12-Month Disbursement Period currently cannot not exceed the lesser of:

- The greater of (i) 60% of the principal limit; or (ii) Mandatory Obligations (meaning the MO's would exceed 50%) plus an additional 10% of the principal limit; or
- The principal limit less the sum of the funds in the LESA for payment beyond the First 12-Month Disbursement Period and the Servicing Fee Set Aside.

Case Numbers Assigned 1/6/2018 Forward

These assessments are considered mandatory obligations and are required to be paid at or prior to closing with verified acceptable funds or with HECM proceeds.



RESOURCES

HERO Program: The HERO Program is an energy efficient financing program in the United States. The name HERO stands for Home Energy Renovation Opportunity. <https://www.heroprogram.com/how-it-works>

Pace Program: The PACE Program is a Property Assessed Clean Energy (PACE) Program, which provides financing for energy-efficient, water-efficient and renewable energy products to home and business owners in approved communities within California and Missouri. PACE loans are paid back through real estate tax assessments. <https://energy.gov/eere/stsc/property-assessed-clean-energy-programs>

Note: There may be other states that have similar programs or other programs that would also fall under these guidelines (i.e., California Alternative Energy and Advanced Transportation Financing Authority).

Mortgage Letters: [ML 2016-11](#), [ML 2014-21](#), and [ML 2017-18](#)

For more information, contact your Account Executive

